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RUEHCN/AMCONSUL CHENGDU 1588  
RUEHGZ/AMCONSUL GUANGZHOU 9817  
RUEHHK/AMCONSUL HONG KONG 7313  
RUEHGH/AMCONSUL SHANGHAI 0631  
RUEHSH/AMCONSUL SHENYANG 5561  
RUEKJCS/SECDEF WASHINGTON DC  
RHHMUNA/USPACOM HONOLULU HI  
RHHJJAA/JICPAC HONOLULU HI  
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S E C R E T SECTION 01 OF 02 TAIPEI 004110

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E.O. 12958: DECL: UPON PEACEFUL RESOLUTION  
TAGS: [PGOV](#) [MASS](#) [TW](#)  
SUBJECT: DEFENSE MINISTER LEE UPBEAT ON DEFENSE BUDGET  
PROSPECTS

REF: A. A. TAIPEI 3587

[B. B. TAIPEI 3588](#)

[C. C. TAIPEI 3589](#)

[D. D. TAIPEI 3627](#)

Classified By: AIT Director Stephen M. Young; Reasons Sec 1.4 (a/b/d)

#### Summary

1. (C) During a 12 December meeting with the Director, Defense Minister Lee Jye briefed on his recent discussions with LY members on the defense budget and indicated that his information is that the 2006 supplemental budget will be passed by the procedural committee next Tuesday 19 December 2006. Director Young advised the Minister that all political leaders need to come together and pass a Supplemental Budget and 2007 Annual Defense budget that is in Taiwan's interest and in the interest of the U.S.-Taiwan relationship. End Summary

#### Defense Budget

2. (S) Defense Minister Lee remarked that he had followed closely Director Young's recent public comments in which the Director pressed all sides to resolve political differences over the defense budget. The Director, Lee continued, had stressed the importance of passing a defense budget for Taiwan's overall national defense. Lee explained that he had been asked to comment on the remarks by several reporters, to which he responded that the Director's comments were motivated by his concern for Taiwan's national security. Director Young remarked that his comments were intended to inform the Taiwan public that the budget impasse was having a detrimental impact on U.S.-Taiwan relations.

3. (S) Minister Lee informed the Director that based on his discussions with KMT leadership, he expected the 2006 Supplemental Budget to be passed by the Procedural by next Tuesday (19 December) and to be passed by the Legislative Yuan Committee before year's end. He further commented that he expected the 2007 Annual Defense Budget to be passed before the end of this legislative session in mid-January of 2007.

4. (S) Director Young emphasized the importance of

introducing a 2007 Supplemental Budget after March 20, 2007, which would include Patriot III funding and additional spending to compensate for any significant cuts that the Legislative Yuan might make to the 2007 Annual Defense Budget. Young stressed the importance of passing a defense budget that restored the full 2.85% of GDP and addressed all elements of the original 2001 arms package.

15. (S) Lee responded that there was a current agreement (he did not specify with whom) to support a 2007 Supplemental Budget in March of 2007 that would include Patriot III funding. He cautioned that increasing the defense budget to 3.00% of GDP in 2008 would give the Ministry of National Defense approximately 70 to 80 billion NT in additional funding that MND will not be able to justify to the Legislative Yuan based on small procurements from the United States. To realize such a large budget increase, MND will have to demonstrate to the Legislative Yuan that the U.S. is willing to approve the sale of large procurements to Taiwan.

16. (S) Lee commented that MND recognized the importance of making progress on the 2001 arms package. He noted that Legislative Yuan member Su Chi had recently sent him a letter requesting that the procurement of eight diesel submarines be broken down from two phases to three phases. Lee responded to Su that an additional phase was not necessary, but he did not elaborate with us on the details of Su's three-phase proposal. Lee expressed sympathy for all that AIT officials "had to put up with" with respect to Taiwan's defense budget process.

F-16s and the 2007 Budget  
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17. (S) Director Young asked for confirmation that the 5-month freeze on F-16s in the Annual Defense Budget would not begin ticking until the final defense budget was passed in January. Lee did not respond to this question.

18. (S) Young said that AIT had repeatedly been told by both the DPP and KMT that the completion of the 9 December Mayoral elections would be a key turning point with respect to deliberations on the defense budget. After the elections Taiwan's politicians would be able to make progress on defense budget issues in a low-key manner. Young stressed that it was important to take advantage of this window of opportunity before the leaders from both parties begin to feel the pressures of the legislative and Presidential elections in 2007 and 2008, respectively.

19. (S) Vice Admiral Kao, Administrative Deputy Minister of Defense, and Admiral Tung, Director of the Strategic Planning Department/MND, stressed that it was important to pass the 2006 Supplemental Budget first as it contained first-year procurement items, while the 2007 Defense Budget contained second-year procurement items.

John Hill Visit  
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110. (S) Responding to Minister Lee's query, Director Young indicated that the postponed visit of John Hill, Principal Director, OSD/East Asia, was the result of the recently-scheduled 18 December Six-Party Talks in Beijing and his obligations to participate in those critical talks. The Director highlighted the many programs and exchanges going on already, and indicated that Washington would consider rescheduling the Hill visit later.

Comment  
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111. (S) The Defense Minister talked about the past and his legacy in Taiwan, clearly anticipating his departure in the

near future.  
YOUNG